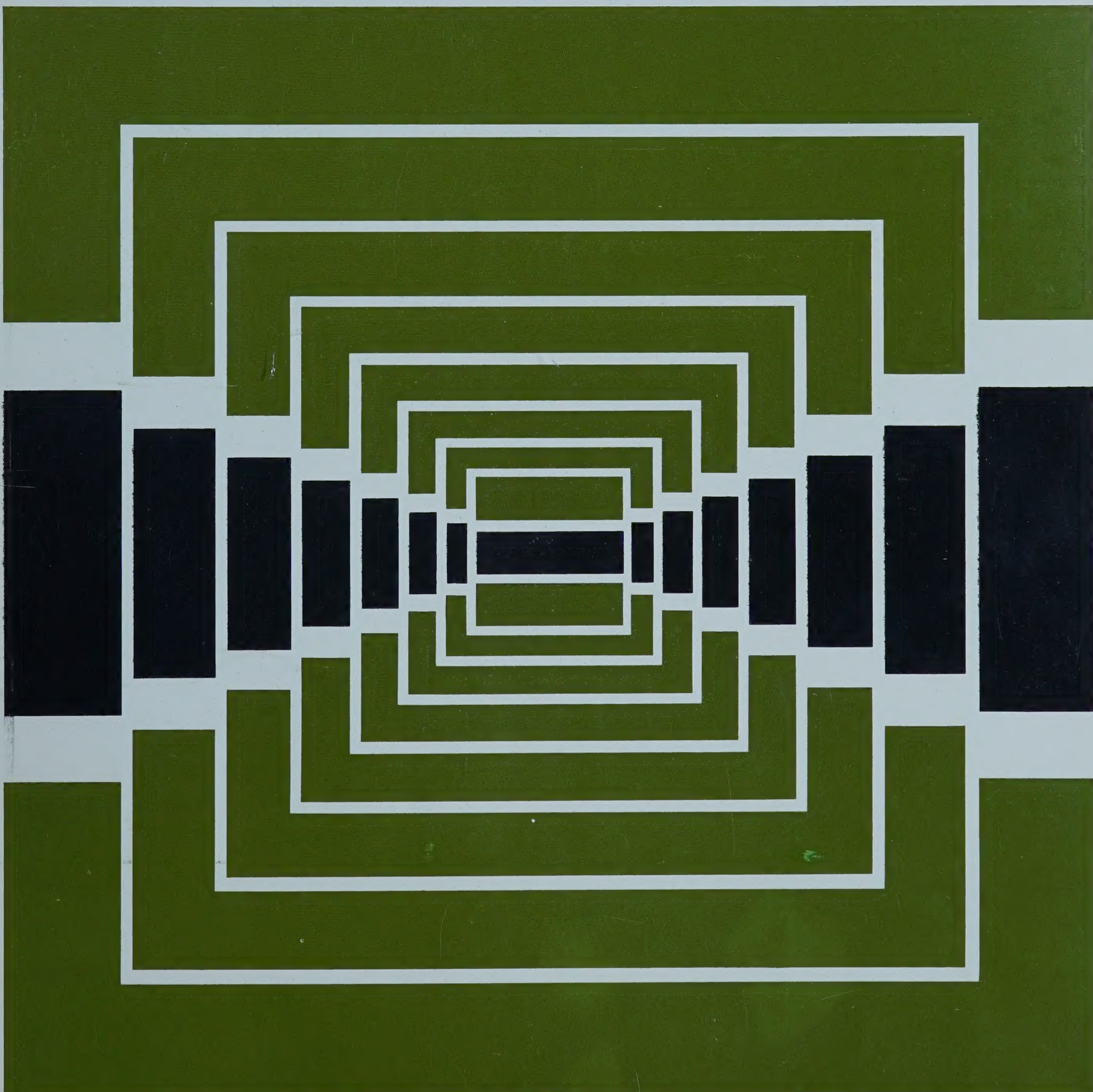
Markborough Properties Limited

Annual Report 1969



Markborough Properties Limited

Contents

Operating, Financial and Statistical Highlights

1969 was the fourth complete year of operations of the Company.
An historical comparison of financial highlights for the four year period is presented below.

	1969	1968	1967	1966
Operating				
Revenue from income properties	$3,771,300	$3,013,500	$1,386,700	$ 773,400
Revenue from land operations	7,410,300	2,855,700	2,551,600	1,464,900
Profit (loss) before taxes	2,615,200	871,300	294,900	(32,600)
Net profit (loss) after taxes	810,200	427,300	144,900	(32,600)
Financial				
Undeveloped land	22,054,300	16,787,300	14,808,700	14,871,400
Income properties	30,095,000	27,880,400	24,027,400	12,191,500
Bank debt	3,937,500	6,325,200	6,437,700	8,822,400
Mortgage debt	29,486,300	21,410,600	15,931,900	11,408,100
Share capital	18,590,600	18,568,400	18,460,200	7,710,200
Per common share outstanding at year end				
Net income (loss)	22.2¢	11.7¢	4¢	(2¢)
Cash flow from operations	85.0¢	34¢	13¢	4¢
Equity	$5.47	$5.24	$5.12	$5.17
Statistical				
Common shares outstanding at year end	3,652,294	3,648,494	3,627,094	1,489,100
Number of shareholders	2,364	1,988	1,167	235
Ratio of income properties to land held for development	1.4 to 1	1.7 to 1	1.6 to 1	0.8 to 1
Ratio of bank and mortgage debt to equity	1.7 to 1	1.4 to 1	1.2 to 1	2.6 to 1

Markborough Properties Limited

Head Office
50 Holly Street, Toronto 7

Directors

D. S. Anderson
Vice President and Director
The Royal Bank of Canada, Toronto

R. C. Brown
Partner
Blake, Cassels & Graydon, Toronto

W. J. Dixon
General Manager
The Bank of Nova Scotia, Toronto

R. L. Friend
Vice President
The Investors Group, Winnipeg

R. H. Gane
Managing Director
George Wimpey & Co. Limited, London, England

Dr. J. M. Gillies
Dean, Faculty of Administrative Studies
York University, Toronto

A. R. Grant
President
George Wimpey Canada Limited, Toronto

G. C. Gray
President
A. E. LePage Limited, Toronto

The Right Honourable Viscount Hardinge
Chairman
Greenshields Incorporated, Montreal

H. P. Langer
Vice President, Operations
Markborough Properties Limited, Toronto

D. S. Lyall
Vice President Finance
Gulf Oil Canada Limited, Toronto

B. R. B. Magee
Chairman of the Board
A. E. LePage Limited, Toronto

D. B. Mansur
Chairman of the Board
Kinross Mortgage Corporation, Toronto

A. R. Marchment
Vice President, Finance
The T. Eaton Company Limited, Toronto

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Commercial Trust Company Limited, Montreal

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President
Alcan Design Homes Limited, Montreal

J. H. Panabaker
Executive Vice President
The Mutual Life Assurance Company of Canada, Waterloo

D. W. Pretty
Vice President, Finance
North American Life Assurance Company, Toronto

D. F. Prowse
Vice President, Finance
Markborough Properties Limited, Toronto

E. Schousboe
President
Transatlantic Securities Limited, Montreal

E. D. Scott
Director
Greenshields Incorporated, Toronto

J. L. Toole
Chairman, CN Investment Division
Vice President, Canadian National Railways, Montreal

Officers

Brian R. B. Magee, F.R.I., S.I.R., C.R.E.
President

H. Peter Langer, F.R.I., S.I.R.
Vice President, Operations

Donald F. Prowse, B.A., C.A.
Vice President, Finance

George H. Mundy, C.A.
Treasurer

Ronald C. Brown, B.A.
Secretary

Legal Counsel

Blake, Cassels & Graydon
Toronto

Taylor, Joy & McKague
Toronto

Harries, Houser, Brown & McCallum
Toronto

Auditors

Price Waterhouse & Co.
Toronto

Bankers

The Bank of Nova Scotia
Toronto

The Royal Bank of Canada
Toronto

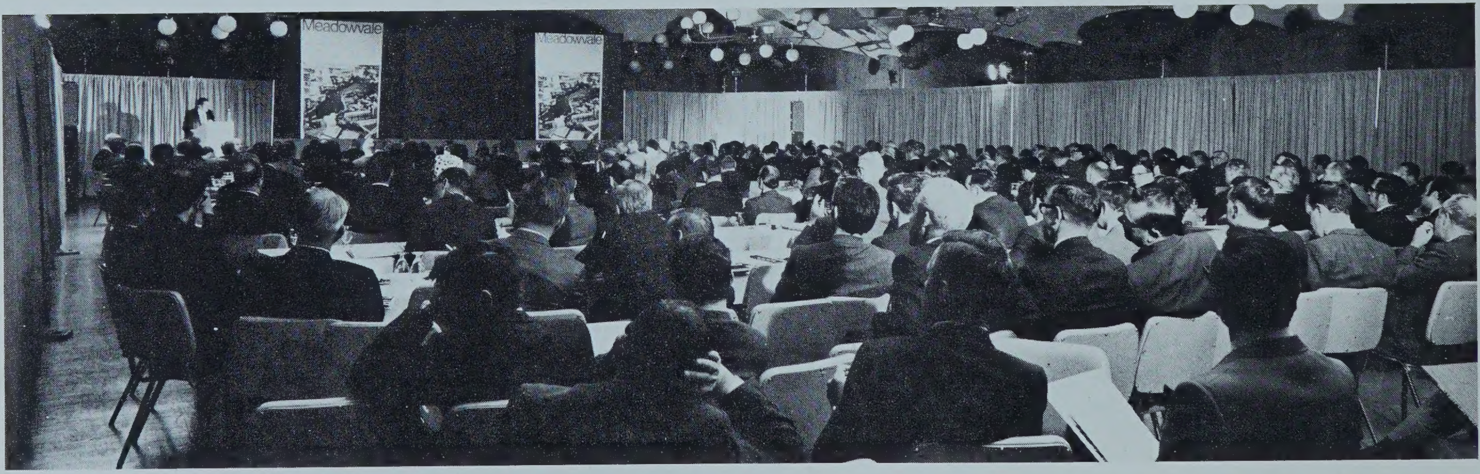
Transfer Agent and Registrar

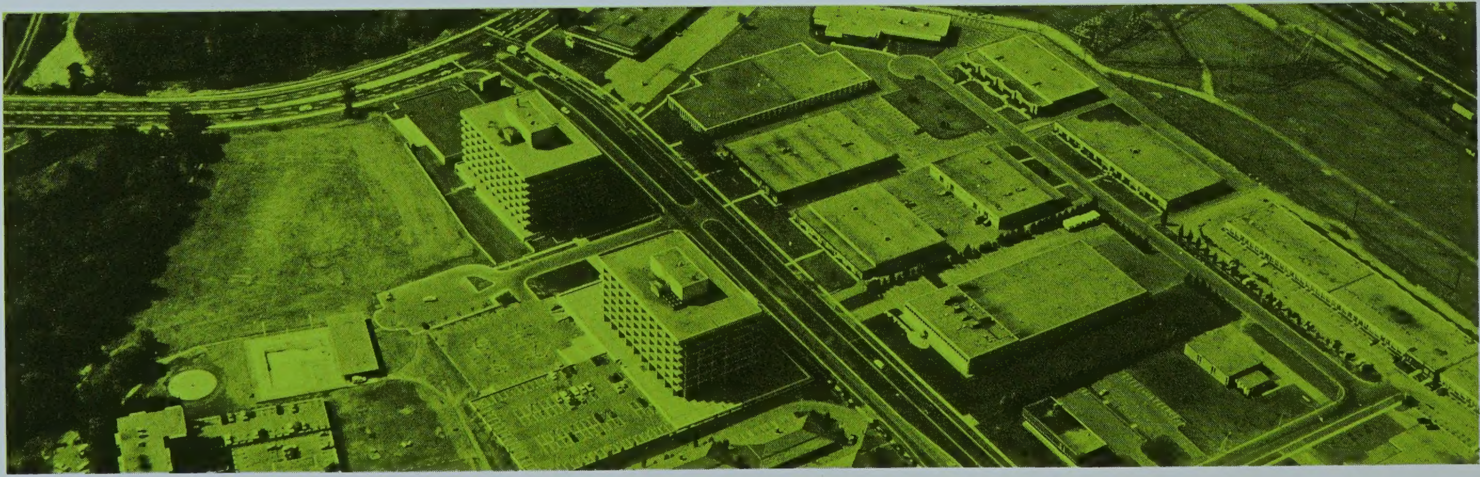
Canada Permanent Trust Company
Toronto, Montreal, Halifax, Winnipeg, Calgary and Vancouver

Securities Listed

Montreal Stock Exchange

Toronto Stock Exchange


Meadowvale
Meadowvale



President's Report

Dear Shareholder:
The year 1969 was another year of growth for the Company. Gross revenues were up in all areas of operation and while profit from income properties was less than expected, the Company's net income after all charges, $810,200, was almost double the 1968 figure. Earnings per share were 22.2¢ compared to 11.7¢ a year earlier.

The Inn at Regina, in which we have a 50% interest, continued to operate successfully in 1969, due in no small part to the efforts of Mr. Peter Danakas, General Manager, and the very fine staff he has assembled. The completion of the additional 40 rooms, under construction at the end of last year, has enabled the Inn to meet the demand for accommodation on all but the very busiest occasions. The enlarged 'Tiki Room', one of the most popular evening-out places in Regina, has also proven a big success.

The completion and leasing of our second office building in Thorncliffe Park in Toronto was accomplished during the year. Both of these buildings are well received by the tenants and are operating very satisfactorily. A site for two additional office buildings, located in an attractive setting in the northeast section of Metropolitan Toronto was acquired shortly after the end of the fiscal year. The two buildings planned for this site are to be similar but somewhat larger than those presently owned.

At $7,410,300, revenue from land sales was over two and one-half times that of 1968. This reflects in part the sale of our Westway Village subdivision in Metropolitan Toronto's Borough of Etobicoke. The Company's land acquisitions during the year included parcels considered to be strategic to the development of our Meadowvale project. In addition, a holding of some 850 acres was assembled in the Rouge River watershed north and east of Toronto near the Town of Markham.

Two developments have taken place which are outside the day to day operations and control of the Company but which none the less bear on its affairs. The first is the continually increasing level of interest rates and the slower growth rate in the supply of money. The second is the recently published White Paper containing the Government's proposals for income tax reform.

Current interest rates on Government guaranteed C.M.H.C. first mortgage loans range from 10¼ % to 10½ % and in some cases might be even higher. Not only are borrowing rates at historic highs, but the supply of funds is short and the capital amount lenders are willing to commit to real estate ventures is far less than the amount necessary to meet the growth potential of the industry. In part, higher interest rates reflect a Government policy aimed at stemming inflation and to the extent this purpose is served, there can be little argument that the policy is in everyone's best interest. It must be recognized however, that to be successful in combating inflation, a condition of high interest rates must be regarded as temporary and indeed must be temporary. If business people regard high money rates as permanent, capital projects will go forward anyway and the additional costs simply become woven into the general price fabric contributing to the very disease for which they are prescribed as a remedy. The confusion created by the interaction of economic forces was well illustrated recently when the decision of two major financial institutions to cut back interest rates on consumer loans was hailed by some experts as an anti-inflationary step. Some time before these very same experts had espoused a high interest rate policy as the most effective weapon for controlling inflation.

On the subject of the Government's proposal for tax reform, there are many technical provisions which require clarification. Your Company and the real property industry in general plan to make vigorous representations on these and other matters. Since the Government has already indicated a willingness to modify its proposals where inequities can be demonstrated, it is expected that in these areas our appeals will be favorably considered. On a broader plain, however, the proposals create a problem for all business which if left unresolved could inhibit the future growth of the business community in Canada. I am referring specifically to the reduction in personal and corporate

savings that will follow full implementation of the proposals. The Government has estimated this reduction to be over $500,000,000 per year. Therefore, capital available for investment in Canada will be reduced by that amount. This may be acceptable as a temporary measure to bolster up anti-inflationary forces, but as a permanent condition in a country where there is already a substantial shortage of capital for the full development of its potential, it is severely punitive. It could result in removing Canada from contention as one of the leading growth areas of the world. Canada needs more capital, not less. If the Government insists that implementation of the wide changes contained in the White Paper is necessary to achieve income tax equity, then this same government must share the responsibility of finding other means to encourage and enable the Canadian economy to provide the investment capital needed for growth.

The planning for our Meadowvale project in the Town of Mississauga west of Toronto is proceeding. Because of the accelerated pace here and because also of the importance the Company attaches to this project, much of the information and commentary which follows in this Annual Report relates to this single project. I need only say that I am pleased with the progress we are making and can assure you that every effort is being expended to expedite the physical development of the property and to create a community truly unique in this country.

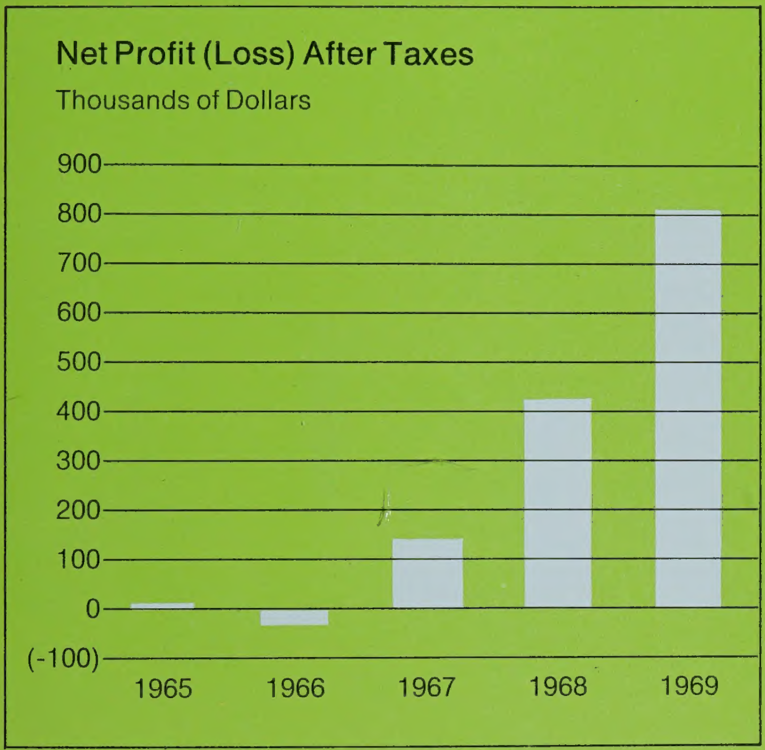
May I take this opportunity of thanking our entire staff for their efforts during the past year. The many situations which arise continually in the operation of any business require the care of competent and aggressive people at all levels of responsibility and I am pleased to say that in this Company, we have such people. May I also thank the Board of Directors for their assistance and wise counsel during the past year.

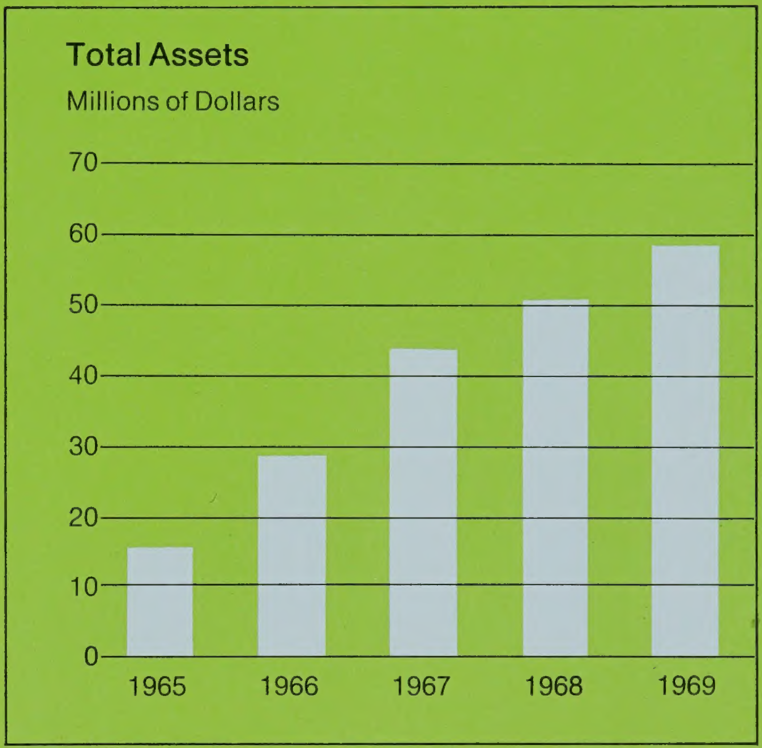
I expect continued satisfactory operations for the Company in the coming year. Whether the pattern of steadily increasing earnings can be maintained in the prevailing economic climate is not predictable at this time. Certainly you can be assured that the Company's management and staff will work toward achieving that goal. In any event, I have every confidence that the decade of the 70's will witness great growth in the real property industry and your Company is well situated to benefit from this continued prosperity.

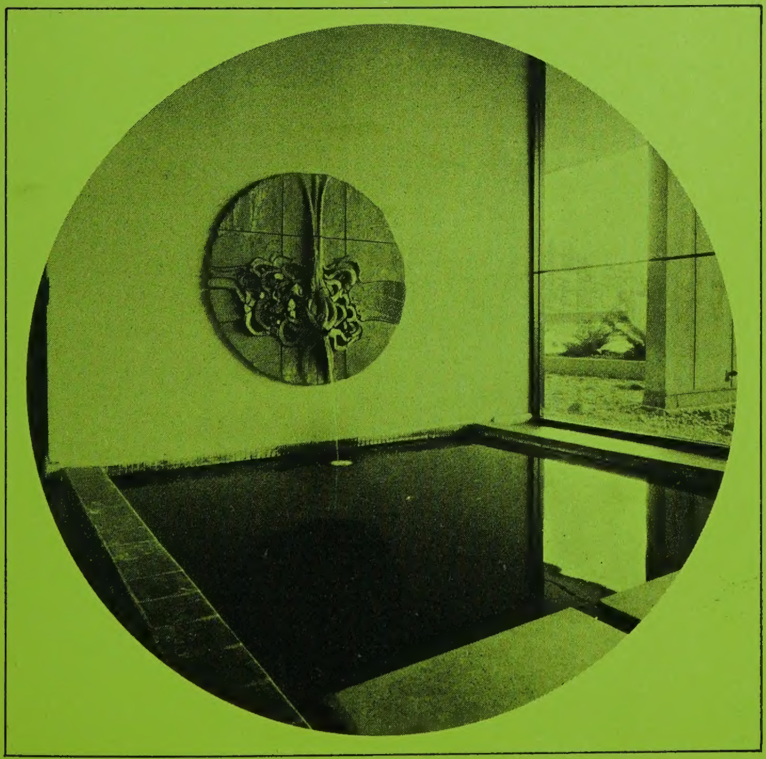
Yours very truly,

B. R. B. Magee,
President.

January 26, 1970


Net Profit (Loss) After Taxes
Thousands of Dollars
900
800
700
600
500
400
300
200
100
0
(-100)
1965
1966
1967
1968
1969


Total Assets
Millions of Dollars
70
60
50
40
30
20
10
0
1965
1966
1967
1968
1969



The year witnessed excellent progress in the development of Markborough's important Meadowvale holding in the Towns of Mississauga and Streetsville, west of Metropolitan Toronto.

On April 25th, 1969, a master plan for the complete project was presented to elected and appointed officials of both provincial and municipal governments; they expressed a particular interest in Meadowvale's inclusive, total community concept.

Since then our staff and consultants have been engaged in preparing more detailed first stage plans of the industrial-residential complex. They have worked closely with the Town of Mississauga on the amendment of the Official Plan for the West Credit area. The Official Plan for the total region and secondary plans for Meadowvale's South, West and industrial communities are currently being considered by Mississauga. An additional 370 acres in and near the Credit River valley were acquired during the year to round out the Meadowvale assembly to nearly 2,700 acres.

Markborough is also in frequent contact with the other major developer in the West Credit region with whom we are co-operating to ensure that the ultimate result will be a well co-ordinated group of communities.

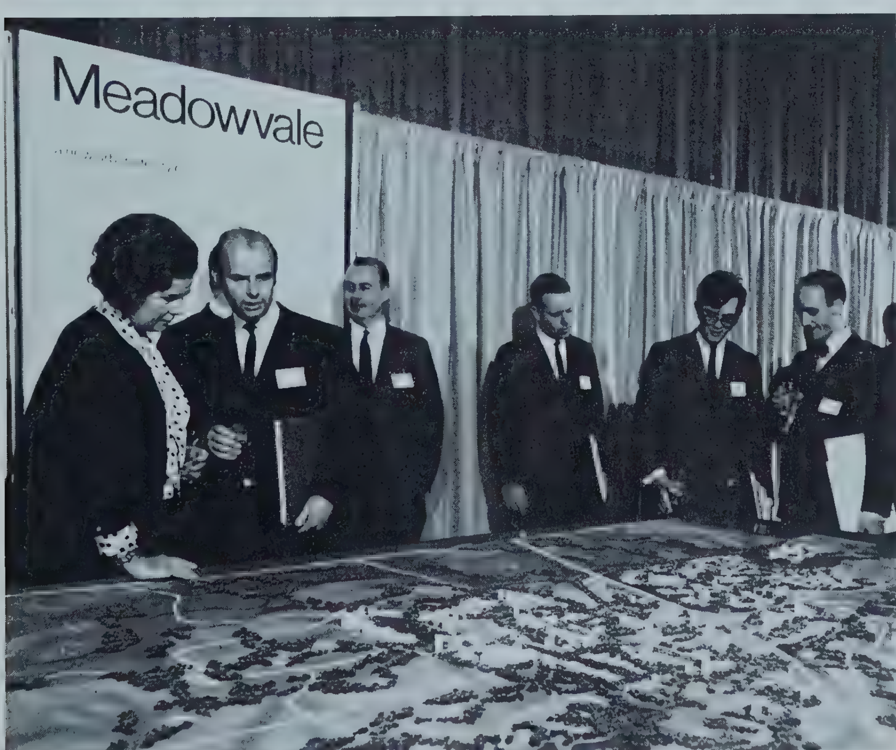
During the month of September, the Department of Municipal Affairs issued a statement relating to land uses in the general area of Toronto International Airport which defined the Provincial Government's position on the matter. Our Meadowvale master plan, in anticipation of such a statement, provided for aircraft sensitivity zoning that is completely in accord with the Government's position.

An extensive traffic analysis has been carried out for the proposed Meadowvale community to ensure that it will not be subjected to the excessive vehicle congestion which prevails in most North American cities; adjustments have been made to road network plans as a result of the computer survey analysis.

Many companies have expressed interest in Meadowvale's industrial park to be located on the south side of Highway 401; we are now involved in negotiations with several major industries that like the location's easy access to Ontario's main traffic artery and Metropolitan Toronto.

It is understood that plans for trunk sewer services to be installed by the Ontario Water Resources Commission are proceeding on schedule. Municipal officials of the Towns of Mississauga and Streetsville have been most co-operative in trying to achieve an early start of development.

In the fall of 1969, Markborough hired Mr. Kenneth C. Comyns, formerly Township Engineer for the Township of Chinguacousy as Project Manager to co-ordinate the many aspects of Meadowvale. His office will be moved to the project in the early months of 1970. A separate information centre that will provide the public with data on the project is being considered for construction in the near future. Discussions have already been held with groups of local residents and models of Meadowvale have been displayed on various occasions. Informal presentations of our ongoing planning have been made to interested municipal bodies.


Meadowvale

The goal is to make Meadowvale into the very best kind of living and working environment. In order that the residents will feel comfortable with their surroundings, no effort is being spared in investigating the various environmental facilities which are the fabric of a desirable community. A study is now being carried out by landscape architects who will report on the total needs of the project and then prepare plans for the landscaping of all public and private property within Meadowvale. Engineering studies are also underway to investigate the design of community lakes in high density areas of the project's major commercial centres. A detailed budget study has been prepared to ensure that the financial implications of changes to the original plan can be evaluated instantaneously.

In order to keep abreast of latest developments in the housing and urbanization field, company staff has carried out on-site inspections of the best examples to be found on the North American continent. We have initiated a housing research program to evaluate the needs of the middle and lower income families which will be living in Meadowvale. Our conversations with social, government-institutional and church organizations are aimed to include them into the complete community that will be Meadowvale. One of these is the Credit Valley Conservation Authority which will be opening a park immediately adjacent to Meadowvale, in 1970.

Meadowvale Village Fall Fair

Greenbelt of the Credit Valley

in scenic, unspoiled Credit Valley.

The company has retained a progressive advertising-marketing organization to create a communication plan that will convey the essential spirit of the Meadowvale development to the general public. Promotion plans are keyed to the target dates of late 1970 for the commencement of industrial site construction and early 1971 for the commencement of home construction. The industrial section will feature a hotel and par three golf course at its centre.

Markborough has been in very close communication with the County Public and Separate Boards of Education. Our desire is to have conveniently located educational facilities available to meet the staging requirements of the new community.

Meadowvale is a long term project. We will be developing various phases of it over a period of fifteen years. Every step of the way will be deliberately planned to fit into the overall theme: this will be a place where the accent is on people who will be able to work and play and live and learn, all in their own community. The year 1970 will witness an acceleration of Meadowvale's planning. The long period of highly imaginative effort which has gone into the creation of what will be Canada's most desirable urban environment is starting to bear fruit.

Summary of Income Properties

Metropolitan Toronto

Apartments:

Rideau Towers I (50% share)	49 Thorncliffe Park Drive	400 suites
Rideau Towers II (50% share)	53 Thorncliffe Park Drive	279 suites
The Somerset	605 Finch Avenue West	243 suites
The Clarion	20 Redgrave Drive	178 suites
The Westway	416 The Westway	102 suites
Westway Maisonettes	65 Sandwell Drive	16 suites
The Westerham	63 Callowhill Drive	112 suites
311 Dixon Road	311 Dixon Road	173 suites
Martinway Towers (70% share)	695 Martin Grove Road	141 suites
	60 Callowhill Drive	141 suites

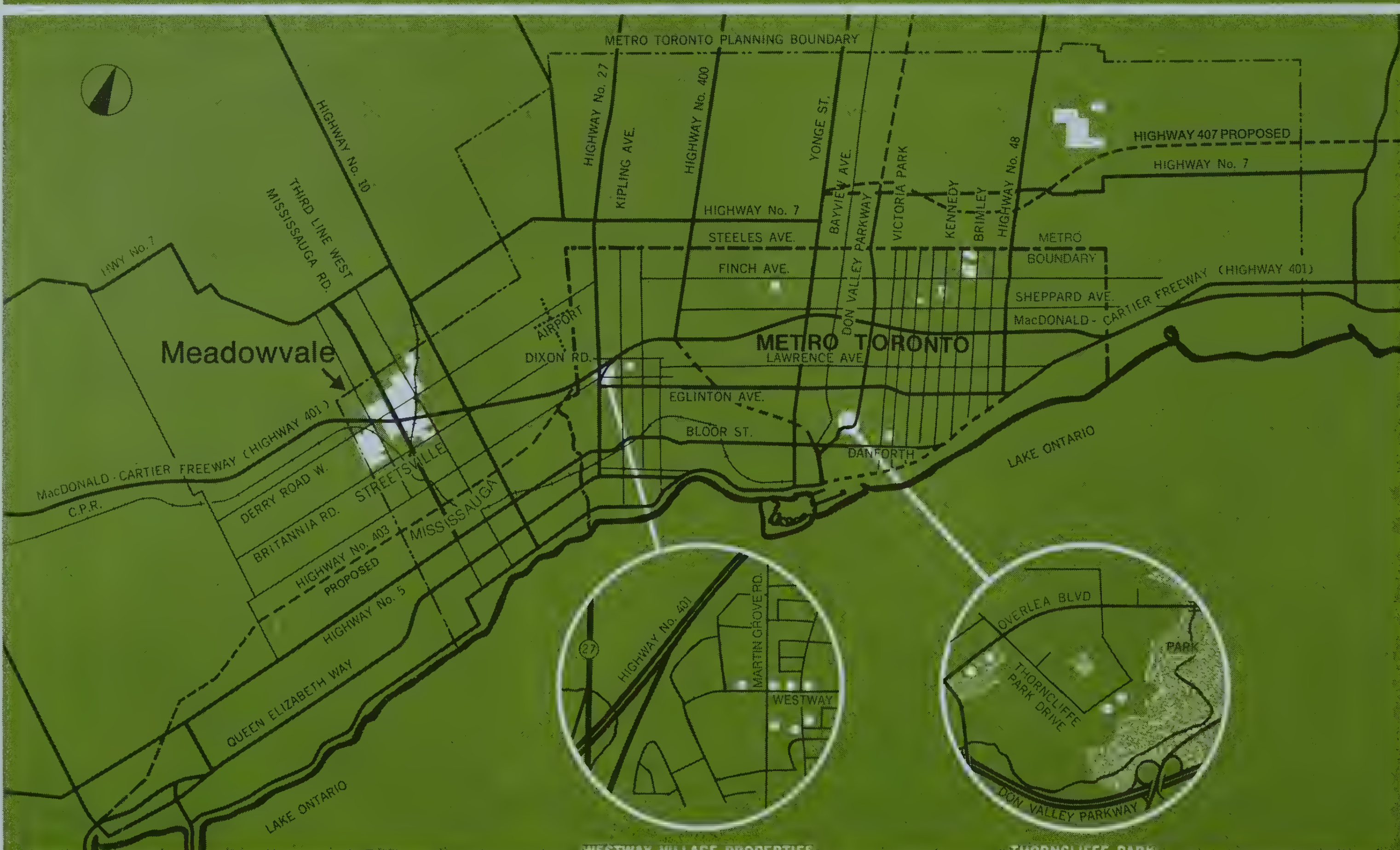
Commercial:

Office Building	7 Overlea Boulevard	150,000 sq. ft.
Office Building	15 Overlea Boulevard	160,000 sq. ft.
Service Station Site (leased to oil company)	418 The Westway	

Regina, Saskatchewan

Regina Centre (50% share) Hotel, shopping complex	1975 Broad Street	240 rooms

Properties in the Metropolitan Toronto Area ● Income Properties ■ Land

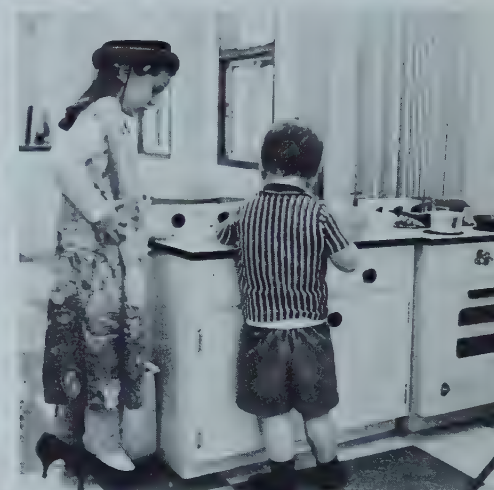


Markborough's inventory of income properties was further increased during the year; the additional buildings constructed leased very quickly and are now contributing to our regular source of income.

7 Overlea Boulevard, Metro Toronto, Ontario

This 150,000 square foot office structure was completed and fully rented during the year 1969. It overlooks a park, a public pool and the Don Valley; an extensive Mall is just one block away and the Thorncliffe Park apartment community is immediately adjacent. Our neighbouring sister building at 15 Overlea Boulevard continued to perform well. Many office workers in both structures have taken up residence in our apartment buildings nearby.

Donview Club Day Care Centre

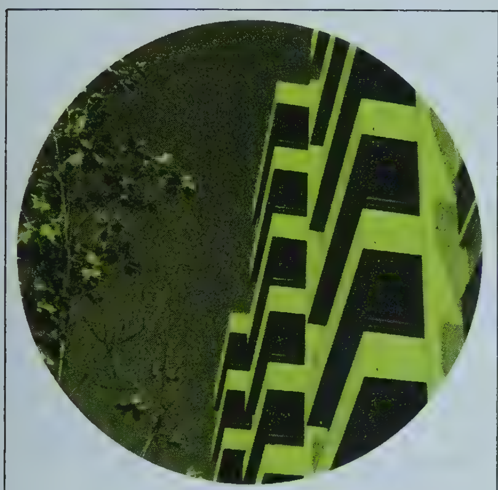


Thorncliffe Apartments, Metro Toronto

The 279 suite apartment tower at 53 Thorncliffe Park Drive became operational and was fully leased before the year ended. Our company is half owner of this and the 400 suite apartment next door at 49 Thorncliffe Park Drive. The lease renewal rate at the latter building is exceptionally high; people tend to live and stay on in Thorncliffe where accessibility, setting and compactness are unequalled in Toronto. Many tenants are reluctant to move from our buildings in the area because the apartments are well managed, spacious and carefully maintained. The Donview Club, whose membership is restricted to tenants, is also an attraction. Social and recreational programs which take place in the club's 40,000 square feet of space are well attended. An enthusiastic staff organizes a wide variety of activities (language lessons, jogging, billiards, etc.) and encourages tenants to assist in the selection and operation of their own programs.

53 Thorncliffe Park Drive

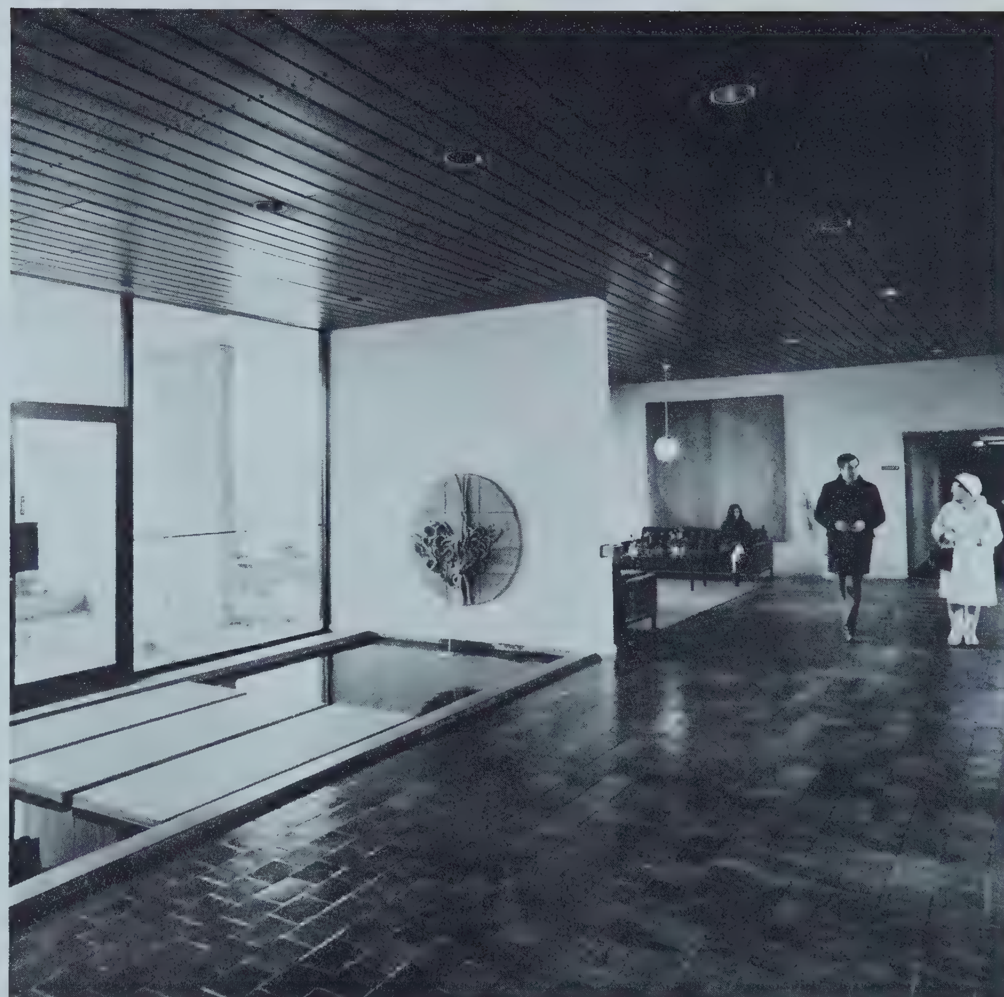
Martinway Towers (Westway)



Westway Apartments, Metro Toronto

Although leasing activity was excellent, the level of occupancy in this grouping of buildings was below expectations during 1969. To effect a marked upturn in lease renewals, an intensive program of capital improvements has been undertaken in order that these apartments may take full advantage of their fine location. In addition to mechanical repairs and improvements, exterior painting, landscaping and lobby furnishing, a carefully conceived promotional program will promote such features as: schools, shopping facilities and parkland right in the heart of the project together with excellent transit and freeway access. We anticipate that these measures will bring about a significant improvement.

Somerset Apartments



Somerset Apartments, Metro Toronto

The importance of design and character is borne out by the continued popularity of our Somerset Apartments in the Borough of North York. Most of the apartments in this 243 suite air-conditioned structure are split level and offer many satisfactions to design-conscious tenants. The surrounding property is heavily treed and the building is terraced into the slopes of the West Don River Valley.

Regina Inn, Regina, Saskatchewan

It has been another successful year for our 240 room hotel operation in Regina, in spite of the current troublesome economic climate in the area. Strong, aggressive management has enabled the Inn to retain its lead position in the Queen City's business and social life; room, restaurant and beverage operations all enjoyed a high level of activity during the year. There was a marked improvement in the restaurant business after the Inn assumed control from a concessionaire. Key additions were made to the hotel's management and catering staff; the Polynesian style Tiki Theatre Restaurant was expanded to 190 seats in order to handle increased patronage. Two major international conventions are among the many bookings lined up for the Inn in 1970.

One of the company's principal activities is the assembly and development of land for sale to builders as well as for the construction of our own income structures; we maintain a healthy reserve of holdings for short, intermediate and long term development. The approval process frequently requires considerable time: two years can sometimes elapse between first application and final authorization of a subdivision project by government. This period is a busy one for Markborough staff who spearhead the efforts of planners, lawyers, engineers, surveyors and other specialists.

Westway Subdivision, Metro Toronto

Early in the year, our company successfully marketed a 35 acre subdivision in the Borough of Etobicoke. Four builders purchased the 53 single family lots, 105 semi-detached lots and the 142 suite apartment site. Underground services (sewers, water, hydro, telephone, cable television) and roads were completed in September. Construction of houses was proceeding rapidly by the end of the year.

Fields of Agincourt Subdivisions, Metro Toronto

Lots in these subdivisions are sold by Markborough under a sales agreement to one national builder as they are required. This builder bought 202 of them last year. A church site in the area was also sold. A partner's 50% interest was purchased in a 160 acre parcel north-east of the Fields of Agincourt; it is now wholly owned by Markborough and will be developed in 3 to 4 years' time. A 120 acre parcel in the same region as the Fields of Agincourt is now in the planning stage with services scheduled for early 1971.

Pharmacy Avenue Site, Metro Toronto

The company has reached a decision to sell this 556 suite apartment site. It is expected that satisfactory arrangements for sale will be made in 1970.

Finch Avenue Apartment Site, Metro Toronto

Rather than proceed with development of the 158 suite property adjacent to Somerset Apartments under high interest rate conditions, it was decided to sell the land to another builder.

Beaconsfield Subdivision, Beaconsfield, P.Q.

In keeping with the terms of an existing sales agreement, Markborough sold the remaining 85 lots in this subdivision to a builder in the early part of the year. A small shopping centre site is all that is left of this subdivision.

Markham Land Assembly, Markham Township, Ontario

This major addition to our long-term land inventory is an assembly of 850 acres of farmland in Markham Township, north-east of Metropolitan Toronto. It is favourably located in the Little Rouge River drainage area near the proposed Highway 407 and a C.P. Rail line. The assembly is in the path of Metro Toronto's eastern expansion.

← Vancouver, B.C., Office Site

The strategic south-east corner of Georgia and Thurlow has been purchased and will be held for future development. Vancouver's commercial growth has been excellent in the last few years; our 17,300 square foot acquisition is located in an area which is currently under active development.

Duncan Mill Office Site, →
Don Mills, Metro Toronto

Shortly after the year end, Markborough purchased this 4.5 acre parcel of land in prestigious Wrentham Industrial Park. Two eight storey office buildings, each containing approximately 172,000 square feet of space, are planned for the site. Construction for the first of these is expected to start in February, 1970. The land is bordered in part by an attractive river valley and has excellent accessibility.


Duncan Mill Office Site


Proposed Development

Auditors' Report

PRICE WATERHOUSE & CO.

P.O. Box 51
Toronto-Dominion Centre
Toronto 111

November 28, 1969.

To the Shareholders of
Markborough Properties Limited:

We have examined the consolidated balance sheet of Markborough Properties Limited as at October 31, 1969 and the consolidated statements of income and expenses, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the companies as at October 31, 1969 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PRICE WATERHOUSE & CO.

Chartered Accountants

Consolidated Statement of Income and Expenses

For the Year Ended October 31, 1969
(with comparative figures for 1968)

	1969	1968
Revenue from income properties (Note 1)	$3,771,300	$3,013,500
Less:		
Operating expenses	856,800	573,700
Mortgage and other interest	1,447,100	1,163,500
Realty taxes	712,600	522,600
Depreciation (Note 2)	491,100	386,900
	3,507,600	2,646,700
Profit from income properties	263,700	366,800
Revenue from land operations	7,410,300	2,855,700
Less cost	4,913,300	2,253,300
Profit from land operations (Note 3)	2,497,000	602,400
Interest and other income	334,100	274,000
Income before general and administrative expenses	3,094,800	1,243,200
General and administrative expenses:		
Executive and office salaries	176,000	148,700
Bank interest	60,900	26,500
Other	242,700	196,700
	479,600	371,900
Net income before income taxes	2,615,200	871,300
Provision for income taxes, deferred (Note 4):		
Regular	1,351,000	444,000
Additional (Note 5)	454,000	—
	1,805,000	444,000
Net income for the year	$ 810,200	$ 427,300
Earnings per share (based on shares outstanding at year end)	22.2¢	11.7¢

Consolidated Statement of Retained Earnings

For The Year Ended October 31, 1969
(with comparative figures for 1968)

	1969	1968
Retained earnings at beginning of year	$ 561,000	$ 133,700
Net income for the year	810,200	427,300
Retained earnings at end of year	$1,371,200	$ 561,000

Markborough Properties Limited
(Incorporated under the laws of Ontario)

Assets	1969	1968
Accounts receivable	$ 260,400	$ 562,600
Mortgages and other secured receivables (Note 6)	3,815,900	2,399,000
Land (Note 7):		
Under sales and option agreements (Note 8) —		
Developed	1,739,200	1,949,800
Undeveloped	1,763,000	4,284,300
For future development (Note 9)	20,291,300	12,503,000
	23,793,500	18,737,100
Advances relating to joint ventures (Note 10)	397,400	783,500
Prepaid expenses and other assets	501,900	426,200
Income properties (Note 7):		
Land	3,227,100	3,220,400
Buildings	27,093,000	20,889,300
Equipment	1,140,000	909,600
Construction in progress	—	3,735,100
	31,460,100	28,754,400
Less accumulated depreciation	1,365,100	874,000
	30,095,000	27,880,400
	$58,864,100	$50,788,800

On behalf of the Board:
B. R. B. Magee, *Director*
D. F. Prowse, *Director*

Consolidated Balance Sheet — October 31, 1969
(with comparative figures at October 31, 1968)

Liabilities and Shareholders' Equity	1969	1968
Bank indebtedness	$ 3,937,500	$ 6,325,200
Accounts payable and accrued liabilities:		
On construction and development in progress	650,700	948,500
Other	883,800	599,200
Provision for development costs (Note 11)	915,600	600,800
Amount payable under land purchase agreement, due July 1972	460,000	1,020,000
Security deposits by lessees	169,400	161,100
Mortgages payable (Note 12)	29,486,300	21,410,600
Deferred income taxes (Note 4)	2,399,000	594,000
	38,902,300	31,659,400
Shareholders' equity:		
Capital stock (Note 13) — Authorized—6,000,000 common shares, no par value Issued—3,652,294 shares (1968 — 3,648,494 shares)	18,590,600	18,568,400
Retained earnings	1,371,200	561,000
	19,961,800	19,129,400
	$58,864,100	$50,788,800

Markborough Properties Limited

Consolidated Statement of Source and Application of Funds

For the Year Ended October 31, 1969
(with comparative figures for 1968)

	1969	1968
Funds were provided from:		
Operations:		
Net income for the year	$ 810,200	$ 427,300
Add expenses included therein not requiring a current outlay of funds —		
Depreciation	491,100	386,900
Income taxes, deferred	1,805,000	444,000
	3,106,300	1,258,200
Mortgages on income properties and land	9,693,300	6,430,300
Land, development and related costs realized through sales	4,913,300	2,253,300
Cost of income property land sold, subject to lease-back	—	300,700
Common shares, proceeds from issue	22,200	108,200
Total funds provided	17,735,100	10,350,700
Funds were applied to:		
Income property construction	2,705,700	4,289,400
Land:		
Acquisition	7,128,500	2,598,700
Development and related costs	1,942,600	1,453,200
Carrying charges	583,800	469,600
Mortgage principal repayments	1,617,600	951,600
Bank indebtedness	2,387,700	112,500
Total funds applied	16,365,900	9,875,000
Net change in other assets and liabilities	$ 1,369,200	$ 475,700
Represented by:		
Increase (decrease) in:		
Accounts, mortgages and other secured receivables	$ 1,114,700	$ 1,456,600
Deposits on property purchases	—	(843,300)
Advances relating to joint ventures	(386,100)	15,100
Prepaid expenses and other assets	75,700	210,300
	804,300	838,700
Deduct (add) increase (decrease) in:		
Accounts payable and accrued liabilities	(13,200)	(675,500)
Amount payable under land purchase agreement	(560,000)	1,020,000
Security deposits by lessees	8,300	18,500
Net change in other assets and liabilities, as above	(564,900)	363,000
	$ 1,369,200	$ 475,700

October 31, 1969

1. Revenue from Income Properties:

Revenue from income properties includes gross rental revenue from all of the Company's properties except Regina Centre. Amounts relating to this operation have been included after deducting direct operating expenses.

2. Depreciation Policy:

The buildings included in income properties are being depreciated on a 3%, 40 year sinking fund basis. Under this method depreciation is charged to income in an amount which increases annually, consisting of a fixed charge together with interest compounded at the rate of 3% per annum, so as to fully depreciate the buildings over a 40 year period. Equipment is being depreciated at 15% on a straight line basis.

3. Profit from Land Operations:

In June 1969, the Ontario Securities Comission published Guidelines relating to the recognition of profits in real estate transactions. The Company's accounting policies comply with these Guidelines.

4. Deferred Income Taxes:

In calculating taxable income the Company avails itself of certain provisions of the Income Tax Act to eliminate taxes currently payable, and as a result all provisions for income taxes to date are shown in the balance sheet as deferred income taxes. Based on the Company's projections of future taxable income, no portion of the deferred tax liability will be payable before 1974.

5. Additional Income Taxes:

The additional tax provision results from a higher than normal tax liability incurred on certain lands sold during the year. These lands were acquired on amalgamation in 1965 and have been carried in the accounts at values in excess of those recognized for tax purposes (see Note 7). Accordingly, on these land sales income subject to tax exceeds that recorded in the Company's accounts.

6. Mortgages and Other Secured Receivables:

Mortgages and other secured receivables, which arise from land transactions, bear interest from 7% to 8% and mature as follows:

Fiscal year ending	
October 31, 1970	$1,659,400
1971	1,968,600
1972	187,900
	$3,815,900

Under certain conditions the amounts due may be paid prior to maturity.

7. Valuation of Land and Income Properties:

On August 12, 1965 Markborough Limited and Highbury Properties Limited amalgamated under the Ontario Corporations Act to form Markborough Properties Limited. Land originally held by Markborough Limited was recorded at cost. Land and income properties held by Highbury Properties Limited were recorded at approximately $1,800,000 less than the valuation at the date of amalgamation and approximately $4,100,000 in excess of the values recognized for income tax purposes. The potential tax liability created by this excess was taken into account in arriving at the values used.

Part of the property to which this excess applied was sold during the year (see Note 5 regarding additional tax provision related thereto) and as a result the balance has been reduced to approximately $3,200,000 allocated as follows:

Income Properties:		
Land	$1,100,000	
Buildings	300,000	
		$1,400,000
Land for future development		1,800,000
		$3,200,000

The increment shown above relating to income properties will not result in additional taxes unless the properties are sold. At the present time it is not the Company's intention to sell these properties.

The land for future development subject to the increment is part of the Company's Meadowvale project. It is estimated that sales in this part of the project will extend over thirteen years and additional taxes of approximately $950,000 will be charged to income over that period.

Additions to land and income properties since August 12, 1965 are at cost which includes applicable carrying charges (interest and real estate taxes). The carrying charges added to land under sales and option agreements are fully recoverable under the terms of the agreements. Carrying charges accumulated to date on land for future development amount to $1,012,000, including $384,000 in the current year.

8. Land under Sales and Option Agreements:

The major portion of land in this category has been optioned to a potential purchaser. Should the options not be exercised the Company will receive substantial amounts as compensation under the terms of the agreements.

9. Land for Future Development:

The distinction between sites for income property construction and land for future development, as shown in the 1968 financial statements, has been eliminated in 1969 and all such land holdings combined under the heading Land for Future Development. This change in presentation has been made to reflect the flexibility that exists in deciding the ultimate use or disposition of the Company's land holdings. The 1968 figures have been reclassified accordingly.

10. Joint Ventures:

Five of the Company's income properties are co-owned with other corporations under joint venture agreements. In such cases, the consolidated financial statements include only the Company's share of the assets, liabilities, revenues and expenses. In certain of the joint ventures, the Company has undertaken to make interest bearing interim advances for the development of the properties and as at October 31, 1969 these advances amounted to $397,400. The Company is contingently liable at October 31, 1969 for $7,293,000, representing the liabilities in the joint ventures of its co-owners, but against such contingent liability the Company would have a claim upon the joint venture assets of its co-owners. The value of these joint venture assets exceeds the contingent liability.

11. Provision for Development Costs:

The Company estimates and provides for the full cost of servicing subdivisions currently under development. The provision for development costs is the unexpended portion of these estimates.

12. Mortgages Payable:

Mortgages payable comprise the following:

On land under sales and option agreements, at interest from 5% to 8% with varying repayment terms and maturing by 1976	$ 1,336,900
On land for future development, at interest from 5% to 8½% with varying repayment terms and maturing by 1985	5,290,300
On income properties, at interest from 6¼% to 8¾% payable in equal instalments of principal and interest and maturing by 2003	22,859,100
	$29,486,300

Mortgages payable on income properties include the Canadian dollar equivalent of $5,171,000 payable in United States funds.

Principal repayments are due approximately as follows:

Fiscal year ending October 31, 1970	$ 515,200
1971	956,600
1972	1,294,100
1973	1,150,300
1974	1,563,300
Subsequent to October 31, 1974	24,006,800
	$29,486,300

13. Capital Stock:

(a) During 1967 share purchase warrants were issued in connection with a public offering of 1,200,000 common shares and as a result 300,000 common shares are reserved for the exercise of these warrants. Such warrants entitle the holders thereof to purchase common shares at a price of $6 if exercised before the close of business on February 1, 1970 and at a price of $7 if exercised before the close of business on August 1, 1972.

(b) On the exercise of options during the year the Company issued 3,800 common shares for a total cash consideration of $22,200. No options were granted during the year. At October 31, 1969 options to purchase 20,000 shares at $5 (expiring 1976) and 14,400 shares at $5.85 (expiring 1973 to 1978) were outstanding. A further 30,400 shares are reserved for the granting of future options.

14. Subsidiaries:

The Company has two subsidiary companies, both wholly owned; Northhaven Farms Limited, which farms the Company's land for future development, and Canada Centre Development Corp. Ltd., which is inactive. The consolidated financial statements include the accounts of these subsidiaries.

15. Remuneration to Directors and Senior Officers:

The aggregate direct remuneration paid or payable to the directors and senior officers of the Company in respect of the year ended October 31, 1969 was $141,000 (1968 — $121,000).

Consolidated Statement of Source and Application of Funds
For the Six Months Ended April 30, 1969 (Unaudited)
(with comparative figures for the six months ended April 30, 1968)

	1969	1968
Funds were provided from:		
Operations:		
Net income for the period	$ 425,600	$ 100,800
Add expenses included therein not requiring a current outlay of funds:		
Depreciation	223,600	196,800
Income taxes, deferred	1,030,000	109,000
	1,679,200	406,600
Land, development and related costs realized through sales	2,636,400	1,195,000
Bank advances	2,155,700	—
Mortgages on income properties and land	1,547,100	4,941,500
Common shares, proceeds of issue	15,200	100,000
Total funds provided	8,033,600	6,643,100
Funds were applied to:		
Land:		
Acquisition	2,982,000	926,400
Development and related costs	688,700	541,200
Carrying charges	193,000	210,000
Income properties, construction and acquisition	1,852,000	2,767,100
Mortgage principal repayments	888,900	617,400
Bank indebtedness	—	1,044,700
Total funds applied	6,604,600	6,106,800
Net increase in other assets and liabilities	$1,429,000	$ 536,300
Represented by:		
Increase (decrease) in:		
Accounts, mortgages and other secured receivables	$1,575,600	$ (36,300)
Deposits on property purchases	204,100	352,800
Advances relating to joint ventures	(235,600)	(51,100)
Prepaid expenses and other assets	(38,100)	294,700
	1,506,000	560,100
Deduct increase (decrease) in:		
Accounts payable and accrued liabilities	(72,200)	21,400
Amount payable under land purchase agreement	140,000	—
Security deposits by lessees	9,200	2,400
	77,000	23,800
Net increase in other assets and liabilities, as above	$1,429,000	$ 536,300

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MARKBOROUGH PROPERTIES LIMITED

Interim Report to the Shareholders for the Six Months Ended April 30, 1969

To the Shareholders

MARKBOROUGH PROPERTIES LIMITED

I am pleased to report that the net income for the six months ended April 30, 1969 was $425,600 compared to $100,800 in the same period last year.

Gross revenue from income properties was $1,660,100 compared to $1,416,100 in 1968 reflecting in part the addition of one apartment building to the Company's income property holdings since April 30, 1968. Net revenue from income properties declined somewhat from the same period last year. This decrease is a result of higher operating expenses and vacancy rates in some apartment buildings. Steps have been taken to correct this situation and I expect that earnings from these properties will improve. A second office building, containing 150,000 square feet, is now fully leased and will come on stream in June. This additional income property will contribute to the Company's earnings in the second half of the year.

Land sales were ahead of forecast and should continue strong for the balance of the year. This part of our operation has shown a major improvement over 1968.

On April 25th, our Meadowvale master plan was presented to a large audience of government officials, and was very well received. Good progress continues to be made toward the development of this 2,300 acre, 70,000 person community.

The Company is operating in a very satisfactory manner and results are somewhat better than expected at this stage of our development. I would expect that the earnings will continue at or near this rate for the balance of the year.

outlook

May 22, 1969 B. R. B. Magee, President

Consolidated Statement of Income and Expenses For the Six Months Ended April 30, 1969 (Unaudited)

(with comparative figures for the six months ended April 30, 1968)

AR53

	1969	1968
Revenue from income properties	$1,660,100	$1,416,100
Less:		
Operating expenses	378,600	265,500
Mortgage and other interest	637,600	543,400
Realty taxes	338,900	288,800
Depreciation	223,600	196,800
	1,578,700	1,294,500
Profit from income properties	81,400	121,600
Revenue from land operations	4,094,000	1,031,300
Less cost	2,636,400	894,300
Profit from land operations	1,457,600	137,000
Interest and other income, net	136,800	130,200
Income before general and administrative expenses	1,675,800	388,800
General and administrative expenses:		
Executive and office salaries	82,500	71,700
Bank interest	10,500	9,200
Other	127,200	98,100
	220,200	179,000
Net income before income taxes	1,455,600	209,800
Provision for income taxes, deferred:		
Special (see note)	278,000	—
Normal	752,000	109,000
	1,030,000	109,000
Net income for the period	$ 425,600	$ 100,800

Note: The special tax provision results from a higher than normal tax liability incurred on certain lands developed and sold during the period. These lands were acquired in 1965 on amalgamation and as noted in the Company's year-end audited statements, have been carried in the accounts at a value in excess of that recognized for tax purposes.

Consolidated Statement of Retained Earnings For the Six Months Ended April 30, 1969 (Unaudited)

(with comparative figures for the six months ended April 30, 1968)

	1969	1968
Retained earnings at beginning of period	$ 561,000	$ 133,700
Net income for the period	425,600	100,800
Retained earnings at end of period	$ 986,600	$ 234,500